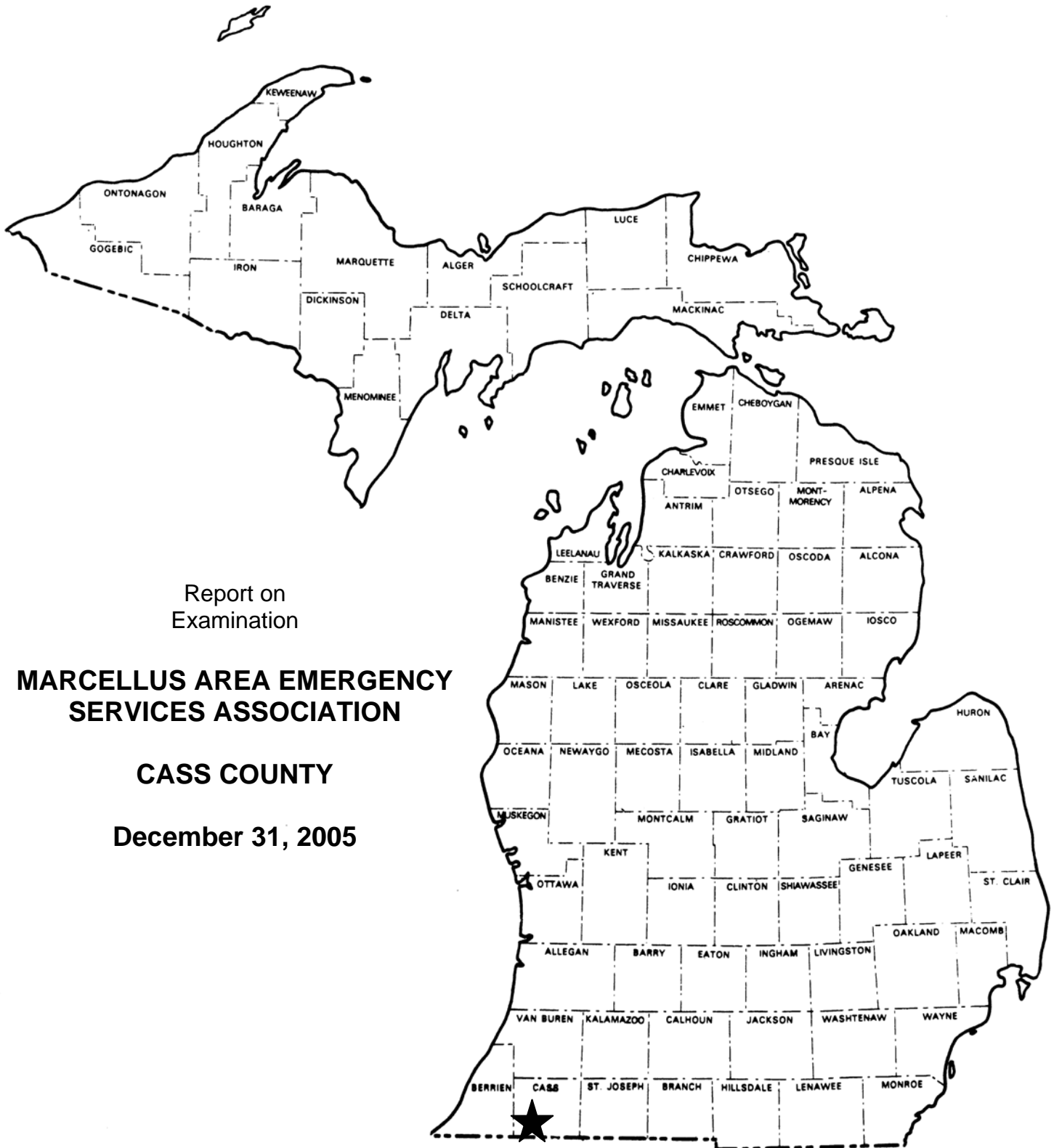


STATE OF MICHIGAN
JENNIFER M. GRANHOLM, Governor
DEPARTMENT OF TREASURY



MARCELLUS AREA EMERGENCY SERVICES ASSOCIATION

BOARD MEMBERS

Sheila Boshovan
Chairperson

Larry Etter
Vice Chairperson

Judy Birt
Secretary

Mary Fisher
Treasurer

Pat Kuhnle
Trustee

James Reynolds
Trustee

APPOINTED POSITIONS

Heath Seelye
Ambulance Director

James Thomas
Fire Chief

VILLAGE OF MARCELLUS POPULATION--2000
1,193

MARCELLUS TOWNSHIP POPULATION--2000
2,712



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

ROBERT J. KLEINE
STATE TREASURER

May 8, 2006

Marcellus Area Emergency Services Association Board
177 East Main Street
P.O. Box 367
Marcellus, Michigan 49067

Independent Auditor's Report

Dear Board Members:

We have audited the accompanying financial statements of the governmental activities and each major fund of the Marcellus Area Emergency Services Association (MAESA) as of and for the year ended December 31, 2005, which collectively comprise MAESA's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of MAESA's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of MAESA, as of December 31, 2005, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 1 through 3 and the budget comparison schedules presented in Exhibit E and F are not required parts of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with Government Auditing Standards, we have also issued our report dated May 8, 2006 on our consideration of MAESA's internal control over financial reporting and our tests on its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Marcellus Area Emergency Services Association's basic financial statements. The accompanying supplemental and related information in Exhibits G and H are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements, taken as a whole.

A handwritten signature in dark ink, appearing to read 'CJ Vaughn', with a long horizontal flourish extending to the right.

Cary Jay Vaughn, CPA, CGFM
Audit Manager
Local Audit and Finance Division

MARCELLUS AREA EMERGENCY SERVICES ASSOCIATION

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MARCELLUS AREA EMERGENCY SERVICES ASSOCIATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

Using this Annual Report

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Marcellus Area Emergency Services Association (MAESA), as a whole, and present a longer-term view of MAESA's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report MAESA's operations in more detail than the government-wide financial statements.

The Authority as a Whole

MAESA's net assets increased approximately 4.67%, or \$14,554, from \$311,966 to \$326,520 for the year ended December 31, 2005. The investment in capital assets-net of related debt decreased by \$26,635 due to the depreciation expense recorded for the year 2005. The unrestricted net assets increased by \$41,189 during 2005. The primary reason was the number of ambulance runs increased in 2005 increasing the Charges for Services revenue relating to those runs.

Net assets as of year ended December 31, 2005, as follows:

	<u>2004</u>	<u>2005</u>	<u>Difference</u>	<u>%</u>
Current Assets	\$ 171,390	\$ 200,656	\$ 29,266	17.08%
Noncurrent Assets	<u>295,610</u>	<u>216,559</u>	<u>(79,051)</u>	<u>-26.74%</u>
Total Assets	<u>467,000</u>	<u>417,215</u>	<u>(49,785)</u>	<u>-10.66%</u>
Current Liabilities	18,425	6,502	(11,923)	-64.71%
Noncurrent Liabilities	<u>136,609</u>	<u>84,193</u>	<u>(52,416)</u>	<u>-38.37%</u>
Total Liabilities	<u>155,034</u>	<u>90,695</u>	<u>(64,339)</u>	<u>-41.50%</u>
Net Assets				
Investment in Capital Assets				
Net of Related Debt	159,001	132,366	(26,635)	-16.75%
Restricted for Permanent Trust Fund	50,000	50,000	-	0.00%
Unrestricted	<u>102,965</u>	<u>144,154</u>	<u>41,189</u>	<u>40.00%</u>
Total Net Assets	<u>\$ 311,966</u>	<u>\$ 326,520</u>	<u>\$ 14,554</u>	<u>4.67%</u>

MARCELLUS AREA EMERGENCY SERVICES ASSOCIATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

The following table shows the changes of the net assets as of the current date:

	<u>2004</u>	<u>2005</u>	<u>Difference</u>	<u>%</u>
Program Revenues				
Charges for Services	\$ 49,263	\$ 89,455	\$ 40,192	81.59%
Operating Grants and Contributions	136,167	127,239	(8,928)	-6.56%
Capital Grants and Contributions	<u>59,089</u>	<u>49,250</u>	<u>(9,839)</u>	<u>-16.65%</u>
Total Revenues	<u>244,519</u>	<u>265,944</u>	<u>21,425</u>	<u>8.76%</u>
Program Expenses				
Public Safety	234,507	243,123	8,616	3.67%
Interest Expense	<u>13,656</u>	<u>8,268</u>	<u>(5,388)</u>	<u>-39.46%</u>
Total Expenses	<u>248,163</u>	<u>251,391</u>	<u>3,228</u>	<u>1.30%</u>
Change in Net Assets	<u>\$ (3,644)</u>	<u>\$ 14,554</u>	<u>\$ 18,198</u>	<u>-499%</u>

Governmental Activities

MAESA's total governmental revenues increased \$20,760 due to the increased revenues from the ambulance billings. However, expenses also decreased \$43,233 as less equipment was purchased and two loans were paid off in 2004.

	<u>Governmental Activities 2004</u>	<u>Governmental Activities 2005</u>	<u>Amount Difference 2005</u>	<u>Percent Difference 2005</u>
Revenues				
Federal Grants	\$ 10,181		\$ (10,181)	-100%
Contributions From Local Units	178,365	\$ 168,230	(10,135)	0%
Charges for Services	49,508	89,035	39,527	80%
Interest and Rentals	787	913	126	16%
Other	<u>5,923</u>	<u>7,346</u>	<u>1,423</u>	<u>24%</u>
Total Revenues	<u>244,764</u>	<u>265,524</u>	<u>20,760</u>	<u>8%</u>
Expenses				
Public Safety	139,928	154,804	14,876	11%
Capital Outlay	24,723	9,268	(15,455)	-63%
Debt Service	<u>103,337</u>	<u>60,684</u>	<u>(42,653)</u>	<u>-41%</u>
Total Expenses	<u>267,988</u>	<u>224,756</u>	<u>(43,233)</u>	<u>-16%</u>
Excess of Revenues Over Expenditures	<u>(23,224)</u>	<u>40,769</u>	<u>63,993</u>	<u>-276%</u>
Beginning Fund Balance	<u>175,260</u>	<u>152,036</u>	<u>(23,224)</u>	<u>-13%</u>
Ending Fund Balance	<u>\$ 152,036</u>	<u>\$ 192,805</u>	<u>\$ 63,993</u>	<u>42%</u>

MARCELLUS AREA EMERGENCY SERVICES ASSOCIATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

MAESA's Funds

Our analysis of MAESA's major funds is explained in Note A, following the government-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not MAESA as a whole. The board creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millages. The MAESA's major funds for 2005 includes the Operating Fund, the Capital Account, and the Permanent Trust Fund.

The Operating Fund pays for most of MAESA's public safety services. These services are partially supported by the contributions received from the participating townships and charges for services.

General Fund Budgetary Highlights

The budget this year was reduced as the debt service portion was decreased. The decrease is due to the conscious effort made in 2004 to reduce MAESA's debt for 2005.

Capital Asset and Debt Administration

At the end of 2005, MAESA had \$216,559 invested in vehicles and equipment. In conjunction with the purchase of these assets, MAESA currently has an installment purchase agreement for a fire truck with a remaining balance of \$84,193.

Economic Factors and Next Year's Budgets and Rates

As we enter into the next year, MAESA has been approved to receive another FEMA grant to purchase a new tanker. MAESA is also hoping to continue to pay down the remaining debt owed on the rescue truck.

Contacting MAESA's Management

This financial report is intended to provide our citizens, taxpayers, customers and investors with a general overview of MAESA's finances and to show accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact our office.

MARCELLUS AREA EMERGENCY SERVICES ASSOCIATION
GOVERNMENT-WIDE STATEMENT OF NET ASSETS
December 31, 2005

EXHIBIT A

	Governmental Activities
<u>ASSETS</u>	
Current Assets	
Bank Deposits	\$ 133,672
Accounts Receivable (Net)	20,591
Due From Township	38,445
Prepaid Expenses	<u>7,948</u>
Total Current Assets	<u>200,656</u>
Noncurrent Assets	
Capital Assets--Net of Accumulated Depreciation	<u>216,559</u>
Total Noncurrent Assets	<u>216,559</u>
Total Assets	<u>417,215</u>
<u>LIABILITIES AND NET ASSETS</u>	
Current Liabilities	
Accounts Payable	4,538
Accrued Liabilities	<u>1,964</u>
Total Current Liabilities	<u>6,502</u>
Noncurrent Liabilities	
Installment Purchase Agreements Payable--Due Within One Year	34,160
Installment Purchase Agreements Payable--Due in More Than One Year	<u>50,033</u>
Total Noncurrent Liabilities	<u>84,193</u>
Total Liabilities	<u>90,695</u>
NET ASSETS	
Investment in Capital Assets	
Net of Related Debt	132,366
Restricted for Permanent Trust Fund	50,000
Unrestricted	<u>144,154</u>
Total Net Assets	<u><u>\$ 326,520</u></u>

The Notes to Financial Statements are an integral part of this statement.

MARCELLUS AREA EMERGENCY SERVICES ASSOCIATION
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2005

EXHIBIT B

	<u>Governmental Activities</u>
Program Expenses	
Public Safety	\$ 243,123
Interest Expense	<u>8,268</u>
Total Program Expenses	<u>251,391</u>
Program Revenue	
Charges for Services	
Charges for Services	89,455
Operating Grants and Contributions	
Contributions From Local Units	118,980
Investment Earnings	913
Other	7,346
Capital Grants	
Contributions From Local Units	<u>49,250</u>
Total Program Revenue	<u>265,944</u>
Change in Net Assets	<u>14,554</u>
Net Assets	
Beginning of Year	<u>311,966</u>
End of Year	<u><u>\$ 326,520</u></u>

The Notes to Financial Statements are an integral part of this statement.

MARCELLUS AREA EMERGENCY SERVICES ASSOCIATION
BALANCE SHEET
GOVERNMENTAL FUNDS
December 31, 2005

EXHIBIT C

		<u>SPECIAL REVENUE FUND</u>	<u>PERMANENT FUND</u>	
	<u>Operating</u>	<u>Capital Account</u>	<u>Permanent Trust</u>	<u>Total Governmental Funds</u>
<u>ASSETS</u>				
Bank Deposits	\$ 83,672		\$ 50,000	\$ 133,672
Accounts Receivable (Net)	20,591			20,591
Due From Townships	38,445			38,445
Prepaid Expenses	7,948			7,948
Total Assets	<u>\$ 150,656</u>	<u>\$ -</u>	<u>\$ 50,000</u>	<u>\$ 200,656</u>
<u>LIABILITIES AND FUND EQUITY</u>				
Liabilities				
Accounts Payable	\$ 4,538			\$ 4,538
Accrued Liabilities	1,964			1,964
Deferred Revenue	1,349			1,349
Total Liabilities	<u>7,851</u>	<u>\$ -</u>	<u>\$ -</u>	<u>7,851</u>
Fund Equity				
Fund Balances				
Reserved for Permanent Trust			50,000	50,000
Unreserved--Undesignated	142,805			142,805
Total Fund Equity	<u>142,805</u>	<u>-</u>	<u>50,000</u>	<u>192,805</u>
Total Liabilities and Fund Equity	<u>\$ 150,656</u>	<u>\$ -</u>	<u>\$ 50,000</u>	<u>\$ 200,656</u>
Fund Balances--Total Governmental Funds				\$ 192,805
Amounts reported for governmental activities in the Statement of Net Assets are different because:				
Capital assets used in governmental activities are not financial resources and are not reported in the funds.				216,559
Revenue that does not provide current financial resources are not reported as revenue in the funds.				1,349
Long-term liabilities are not due and payable in the current period and are not reported in the funds.				<u>(84,193)</u>
Net Assets of Governmental Activities				<u>\$ 326,520</u>

The Notes to Financial Statements are an integral part of this statement.

MARCELLUS AREA EMERGENCY SERVICES ASSOCIATION
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES--GOVERNMENTAL FUNDS
For the Year Ended December 31, 2005

EXHIBIT D

		SPECIAL REVENUE FUND	PERMANENT FUND	
	Operating	Capital Account	Permanent Trust	Total Governmental Funds
Revenues				
Contributions From Local Units	\$ 118,980	\$ 49,250		\$ 168,230
Charges for Services	89,035			89,035
Interest and Rentals	38		\$ 875	913
Other Revenue	7,346			7,346
Total Revenues	215,399	49,250	875	265,524
Expenditures				
Public Safety	154,804			154,804
Capital Outlay	9,268			9,268
Debt Service				
Principal	3,166	49,250		52,416
Interest	8,268			8,268
Total Expenditures	175,506	49,250	-	224,756
Excess of Revenues Over (Under) Expenditures	39,894	-	875	40,769
Other Financing Sources (Uses)				
Interfund Transfers In	875			875
Interfund Transfers (Out)			(875)	(875)
Total Other Financing Sources (Uses)	875	-	(875)	-
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	40,769	-	-	40,769
Fund Balance--January 1, 2005	102,036	-	50,000	152,036
Fund Balance--December 31, 2005	\$ 142,805	\$ -	\$ 50,000	\$ 192,805

Excess of Revenue over Other Sources Over (Under) Expenditures and Other Uses \$ 40,769

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures; in the Statement of Activities, these costs are allocated over their estimated useful lives as depreciation. (79,051)

Long-term revenues are recorded in the Statement of Activities when the revenue is earned; they are not reported in the funds if collected after 60 days of year end. 420

Repayments of installment purchase agreements is an expenditure in the governmental funds, but not in the Statement of Activities (where it reduces the long-term debt). 52,416

Change in Net Assets of Governmental Activities \$ 14,554

The Notes to Financial Statements are an integral part of this statement.

MARCELLUS AREA EMERGENCY SERVICES ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Marcellus Area Emergency Services Association (MAESA) is an authority that was established by the Village of Marcellus and Marcellus Township to provide fire protection and ambulance services according to Public Act 33 of 1951. MAESA is governed by a six member board consisting of three members appointed by each unit.

The accounting policies of MAESA conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by MAESA.

REPORTING ENTITY

In accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity," these financial statements present the village (the primary government) and its component units. The criteria established by GASB for determining the reporting entity includes oversight responsibility, fiscal dependency and whether the financial statements would be misleading if data were not included.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

MARCELLUS AREA EMERGENCY SERVICES ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized when it is both measurable and available. Revenues are considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Revenues are recognized in the accounting period in which they become susceptible to accrual, that is, when they become both measurable and available to finance expenditures of the fiscal period. Property taxes, intergovernmental revenue, charges for services and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by MAESA.

When both restricted and unrestricted resources are available for use, it is MAESA's policy to use restricted resources first, then unrestricted resources as they are needed.

MAESA reports the following major governmental funds:

The General Fund is MAESA's primary operating fund. It accounts for all financial resources of MAESA, except those required to be accounted for in another fund.

The Capital Account, accounts for the millage revenue that is reserved for capital purchases.

The Permanent Trust Fund accounts for the resources that are legally restricted to the extent that only earnings, and not principal, may be used for the operations of MAESA.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

MARCELLUS AREA EMERGENCY SERVICES ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Amounts reported as program revenues include: 1) charges to customers or applicants for goods, services, or privileges provided; 2) operating grants and contributions; and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Bank Deposits and Investments

The cash is considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less from the date of acquisition. The statement of cash flows includes both restricted and unrestricted cash and cash equivalents.

Prepaid Expenses

Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid expense in both the government-wide and fund financial statements.

Capital Assets

Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$500 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Property, plant and equipment is depreciated using the straight-line method over the following useful lives:

Vehicles	7 years
Equipment	5 years

Deferred Revenue

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period, or for resources that have been received but not yet earned.

MARCELLUS AREA EMERGENCY SERVICES ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

NOTE A--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Long-Term Obligations

In the government-wide financial statements, the long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities on the Statement of Net Assets. For new bond issuances after the implementation of GASB Statement No. 34, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method which approximates the effective interest method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE B--STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets are adopted by MAESA's board for the General Fund and Special Revenue Fund after a public hearing is held. The budget basis of accounting does not differ significantly from the modified accrual basis used to reflect actual revenues and expenditures for these funds. The budget is adopted at the activity level and control is exercised at the activity level. MAESA monitors and amends the budget as necessary. Unexpended appropriations lapse at year end.

Excess of Expenditures Over Appropriations in Budgeted Funds

Public Act 2 of 1968, as amended, requires the adoption of a balanced budget for general and special revenue funds, as well as budget amendments as needed to prevent actual expenditures from exceeding those provided for in the budget.

MARCELLUS AREA EMERGENCY SERVICES ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

NOTE B--STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)

MAESA has not complied with certain provisions of Public Act 2 of 1968, as amended. Items of noncompliance are as follows:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund--Operating			
Ambulance			
Wages	\$ 32,602	\$ 32,735	\$ (133)
Fire			
Collection Fees	1,000	2,196	(1,196)

NOTE C--BANK DEPOSITS

Michigan Compiled Laws 129.91, authorizes MAESA to deposit and invest in the accounts of Federally insured banks, credit unions, savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements, bankers' acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date of purchase, obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

MAESA has designated one bank for the deposit of its funds. The investment policy adopted by the board in accordance with Public Act 20 of 1943, as amended, has authorized investment in the instruments described in the preceding paragraph. MAESA's deposits and investment policy are in accordance with statutory authority.

At year end, MAESA's bank deposits (checking and savings accounts, certificate of deposits) of \$133,672 are reported in the basic financial statements. The bank balance of the primary government's deposits is \$138,390, of which \$100,000 is covered by Federal depository insurance.

Investments Authorized by the MAESA's Investment Policy

MAESA's investment policy only authorizes investment in all those that are authorized by law. MAESA currently has no investments and, therefore, no disclosures relating to interest rate risk, concentration of credit risk, or custodial credit risk are disclosed.

MARCELLUS AREA EMERGENCY SERVICES ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

NOTE D--TRANSFERS IN AND (OUT)

The 2005 operating transfers from Exhibit D can be summarized as follows:

	<u>Transfers In</u>		<u>Transfers (Out)</u>
General Fund	<u>\$ 875</u>	Permanent Trust	<u>\$ 875</u>
	<u>\$ 875</u>		<u>\$ 875</u>

NOTE E--CAPITAL ASSETS

Capital asset activity of the authority for the current year, as follows:

	Account Balances 01/01/05	Additions	Deductions	Account Balances 12/31/05
Capital Assets Being Depreciated				
Equipment--Fire	\$ 279,790	\$ 5,096		\$284,886
Equipment--Ambulance	27,762	4,172		31,934
Vehicles--Fire	520,249			520,249
Vehicles--Ambulance	<u>157,773</u>			<u>157,773</u>
Total	<u>985,574</u>	<u>9,268</u>	<u>\$ -</u>	<u>994,842</u>
Less Accumulated Depreciation				
Equipment--Fire	240,228	13,382		253,610
Equipment--Ambulance	12,982	4,199		17,181
Vehicles--Fire	329,182	58,179		387,361
Vehicles--Ambulance	<u>107,572</u>	<u>12,559</u>		<u>120,131</u>
Total	<u>689,964</u>	<u>88,319</u>	<u>-</u>	<u>778,283</u>
Total Net Capital Assets	<u>\$ 295,610</u>	<u>\$ (79,051)</u>	<u>\$ -</u>	<u>\$216,559</u>

MARCELLUS AREA EMERGENCY SERVICES ASSOCIATION

NOTES TO FINANCIAL STATEMENTS

NOTE F--LONG-TERM DEBT

The individual long-term debt and other long-term obligations of MAESA, and the changes therein, may be summarized as follows:

	<u>Balance 01/01/05</u>	<u>Additions (Reductions)</u>	<u>Balance 12/31/05</u>	<u>Due Within One Year</u>
MAESA promissory note for an installment purchase agreement for equipment, \$200,000 maturing serially through 2008 in amounts ranging from \$28,652 and \$38,376, and at an interest rate of 6%.	<u>\$136,609</u>	<u>\$ (52,416)</u>	<u>\$ 84,193</u>	<u>\$ 34,160</u>
Totals	<u><u>\$136,609</u></u>	<u><u>\$ (52,416)</u></u>	<u><u>\$ 84,193</u></u>	<u><u>\$ 34,160</u></u>

The annual interest and principal requirements of MAESA's long-term borrowing may be summarized as follows:

Date of Issue: December 5, 2002

Amount: \$200,000

Purpose: Fire Truck and Equipment

<u>Interest Rate</u>	<u>Date of Maturity</u>	<u>Annual Maturity November 4</u>	<u>Annual Interest Payments</u>	<u>Total Annual Requirements</u>
6.00%	2006	\$ 34,160	\$ 6,525	\$ 40,685
	2007	36,209	4,475	40,684
	2008	<u>13,824</u>	<u>2,309</u>	<u>16,133</u>
Total		<u><u>\$ 84,193</u></u>	<u><u>\$ 13,309</u></u>	<u><u>\$ 97,502</u></u>

NOTE G--RISK MANAGEMENT

MAESA is exposed to various risks of loss related to property loss, torts, errors and omissions, and employees' injuries (workers' compensation). MAESA has purchased commercial insurance coverage through various policies for general liability, property, vehicle and workman's compensation claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

The Michigan Township's Participating Plan (Plan) operates as an insurance pool for local units of government in Michigan. The Plan purchases commercial insurance on behalf of its members at a lower cost than would be available on an individual basis.

MARCELLUS AREA EMERGENCY SERVICES ASSOCIATION
REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE
OPERATING FUND
For the Year Ended December 31, 2005

EXHIBIT E

	<u>BUDGETED AMOUNTS</u>			Variance With Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues				
Federal Grants	-	\$ 100	-	\$ (100)
Contributions From Local Units	\$ 128,850	79,250	\$ 118,980	39,730
Charges for Services	50,000	69,000	89,035	20,035
Interest and Rentals	500	-	38	38
Other Revenue	1,900	6,100	7,346	1,246
Total Revenues	181,250	154,450	215,399	60,949
Expenditures				
Public Safety	169,400	178,000	154,804	23,197
Capital Outlay	18,100	11,500	9,268	2,232
Debt Service				
Principal	35,950	7,450	3,166	4,284
Interest	8,300	8,300	8,268	32
Total Expenditures	231,750	205,250	175,506	6,548
Excess of Revenues Over (Under) Expenditures	(50,500)	(50,800)	39,894	67,497
Other Financing Sources (Uses)				
Interfund Transfers In	500	800	875	75
Total Other Financing Sources (Uses)	500	800	875	75
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	(50,000)	(50,000)	40,769	90,769
Fund Balance--January 1, 2005	50,000	50,000	102,036	52,036
Fund Balance--December 31, 2005	\$ -	\$ -	\$ 142,805	\$ 142,805

**MARCELLUS AREA EMERGENCY SERVICES ASSOCIATION
REQUIRED SUPPLEMENTAL INFORMATION
BUDGETARY COMPARISON SCHEDULE
CAPITAL ACCOUNT--SPECIAL REVENUE FUND
For the Year Ended December 31, 2005**

EXHIBIT F

	BUDGETED AMOUNTS			Variance With Final Budget Positive (Negative)
	Original	Final	Actual	
Revenues				
Contributions From Local Units	\$ 49,250	\$ 49,250	\$ 49,250	-
Total Revenues	49,250	49,250	49,250	\$ -
Expenditures				
Debt Service				
Principal	49,250	49,250	49,250	-
Total Expenditures	49,250	49,250	49,250	-
Excess of Revenues Over (Under) Expenditures	-	-	-	-
Fund Balance--January 1, 2005	-	-	-	-
Fund Balance--December 31, 2005	\$ -	\$ -	\$ -	\$ -

MARCELLUS AREA EMERGENCY SERVICES ASSOCIATION
STATEMENT OF REVENUES AND OTHER FINANCING SOURCES
BUDGET AND ACTUAL--GENERAL FUND
For the Year Ended December 31, 2005

EXHIBIT G

	Original Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
<u>REVENUES</u>				
Federal Grants				
Homeland Security Grant		\$ 100	-	\$ (100)
Total Federal Grants	\$ -	100	\$ -	(100)
Contributions From Local Units				
Contributions From Townships	128,850	79,250	118,980	39,730
Total Contributions From Local Units	128,850	79,250	118,980	39,730
Charges for Services				
Ambulance Department Runs	45,000	60,000	79,410	19,410
Fire Department Runs	5,000	9,000	9,625	625
Total Charges for Services	50,000	69,000	89,035	20,035
Interest				
Interest Ambulance Department	250	-	31	31
Interest Fire Department	250	-	7	7
Total Interest	500	-	38	38
Other Revenue				
Donations and Memorials	1,900	6,100	7,346	1,246
Total Other Revenue	1,900	6,100	7,346	1,246
Total Revenue	181,250	154,450	215,399	60,949
Other Financing Sources				
Operating Transfers In	500	800	875	75
Total Other Financing Sources	500	800	875	75
Total Revenue and Other Financing Sources	\$ 181,750	\$ 155,250	\$ 216,274	\$ 61,024

MARCELLUS AREA EMERGENCY SERVICES ASSOCIATION
STATEMENT OF EXPENDITURES
BUDGET AND ACTUAL--GENERAL FUND
For the Year Ended December 31, 2005

EXHIBIT H

	Orginal Budget	Final Budget	Actual	Variance Favorable (Unfavorable)
Public Safety				
Ambulance Department				
Wages Expense	\$ 33,402	\$ 32,602	\$ 32,735	\$ (133)
Training and Mileage	3,000	3,500	3,225	275
Office Supplies	800	2,250	1,827	424
Operating Supplies	10,000	12,000	10,118	1,883
Postage and Shipping	200	200	-	200
Gas, Oil, and Grease	1,600	2,500	2,217	283
Repairs and Maintenance	5,500	5,500	1,406	4,094
Collection Fees	22,000	22,000	20,181	1,819
Runs and Meetings	4,000	4,000	3,081	919
Telephone	1,000	1,500	1,310	190
Radio Expense	4,000	6,500	5,707	793
Printing Expense	200	225	224	1
Other Expenses	500	690	634	56
Insurance	7,500	9,000	8,565	435
Rent	4,000	4,000	4,000	-
Total Ambulance Department	97,702	106,467	95,229	11,239
Fire Department				
Wages Expense	5,598	5,598	5,598	-
Training and Mileage	3,000	3,400	3,016	384
Office Supplies	800	2,250	1,827	424
Operating Supplies	15,000	9,500	4,513	4,988
Postage and Shipping	200	200	-	200
Gas, Oil, and Grease	1,300	2,500	2,330	170
Repairs and Maintenance	15,000	12,500	7,055	5,445
Collection Fees	1,500	1,000	2,196	(1,196)
Runs and Meetings	6,000	7,000	6,942	58
Telephone	1,000	1,000	642	358
Radio Expense	5,500	8,000	7,366	634
Printing Expense	200	225	224	1
Dues and Publications	200	235	235	-
Travel Expenses	400	435	433	2
Other Expenses	500	690	634	56
Insurance	7,500	9,000	8,565	435
Rent	8,000	8,000	8,000	-
Total Fire Department	71,698	71,533	59,575	11,958
Total Public Safety	169,400	178,000	154,804	23,197
Capital Outlay				
Ambulance Department	6,600	5,500	4,172	1,328
Fire Department	11,500	6,000	5,096	904
Total Capital Outlay	18,100	11,500	9,268	2,232
Debt Service				
Principal Payments	35,950	7,450	3,166	4,284
Interest Expense	8,300	8,300	8,268	32
Total Debt Service	44,250	15,750	11,434	4,316
Total Expenditures	\$ 231,750	\$ 205,250	\$ 175,506	\$ 29,745



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

ROBERT J. KLEINE
STATE TREASURER

May 8, 2006

Marcellus Area Emergency Services Association Board
177 East Main Street
P.O. Box 367
Marcellus, Michigan 49067

RE: Report on Internal Control Over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements Performed
in Accordance With Government Auditing Standards

Dear Board Members:

We have audited the financial statements of the governmental activities and each major fund of the Marcellus Area Emergency Services Association (MAESA) as of and for the year ended December 31, 2005, which collectively comprise the MAESA's basic financial statements and have issued our report thereon dated May 8, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting--In planning and performing our audit, we considered MAESA's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters--As part of obtaining reasonable assurance about whether MAESA's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements noncompliance, with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an

opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported herein under Government Auditing Standards. However, we did note instances of noncompliance described in the accompanying Comments and Recommendations as item 02-11 and 03-01.

This report is intended solely for the information of the Marcellus Area Emergency Services Association's management, Federal and State awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

A handwritten signature in dark ink, appearing to read 'CJ Vaughn', with a stylized flourish at the end.

Cary Jay Vaughn, CPA, CGFM
Audit Manager
Local Audit and Finance Division

MARCELLUS AREA EMERGENCY SERVICES ASSOCIATION

COMMENTS AND RECOMMENDATIONS

STATUTORY NONCOMPLIANCE

Our examination revealed the following instances of noncompliance with State statutes.

Preparation of the Budget

Finding 02-11

Condition: MAESA prepared its budget based on estimated revenues and expenditures for the current year.

Criteria: MCL 141.435 states that the proposed budget must contain revenue and expenditure data for the most recently completed fiscal year; estimated revenues and expenditures for the current fiscal year; an estimate of the revenues and expenditure amounts required to conduct, in the ensuing fiscal year, the government of the local unit; and the amount of surplus or deficit that has accumulated from the prior fiscal year, together with an estimate of the amount of surplus or deficit expected in the current year.

Directive: We direct that MAESA include the budgetary information above to be in compliance with the State statute.

Expenditures in Excess of Appropriations

Finding 03-01

Condition: Our examination of procedures used by MAESA to adopt and maintain operating budgets for MAESA's budgetary funds revealed the following instances of noncompliance with the provisions of Public Act 2 of 1968, as amended, the Uniform Budgeting and Accounting Act:

MAESA's 2004 General Appropriations Act (budget) provided for expenditures of the General Fund to be controlled to the line-item level. As detailed below, actual 2005 expenditures exceeded the board's approved budget allocations for three General Fund line-items.

During the fiscal year ended December 31, 2005, expenditures were incurred in excess of amounts appropriated in the amended budgets for the General Fund and Special Revenue Funds as follows:

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund--Operating			
Ambulance			
Wages	\$ 32,602	\$ 32,735	\$ (133)
Fire			
Collection Fees	1,000	2,196	(1,196)

Criteria: The expenditures of funds in excess of appropriations are contrary to the provisions of Section 17 of Public Act 2 of 1968.

Directive: We direct that MAESA develop budgetary control procedures for the General Fund, which will ensure that expenditures do not exceed amounts authorized in the General Appropriations Act, or amendments thereof.